

Seattle Housing Levy First Time Homebuyer Loan Program

This paper discusses: 1) the program parameters and results of the 2002 Housing Levy; 2) the benefits of homeownership to individuals families and the community; 3) the continued need for a homeownership program; and 4) Office of Housing's proposal for the 2009 Housing Levy First Time Homebuyer Loan Program.

1. 2002 HOUSING LEVY FIRST-TIME HOME BUYER PROGRAM RESULTS

Over the life of the 2002 Levy, until very recently, the for-sale housing market experienced dramatic changes, with rapid price appreciation making homeownership even more difficult for low and moderate income homebuyers. In spite of these challenges, 2002 Levy made homeownership a reality for many Seattle families.

To date, with the assistance of 2002 Levy funds, 200 individuals and families were able to purchase homes in Seattle. Each of these loans assists a homebuyer who is an asset to their community. With an average purchase price of nearly \$260,000, housing Levy loans leveraged six dollars for every dollar loaned.

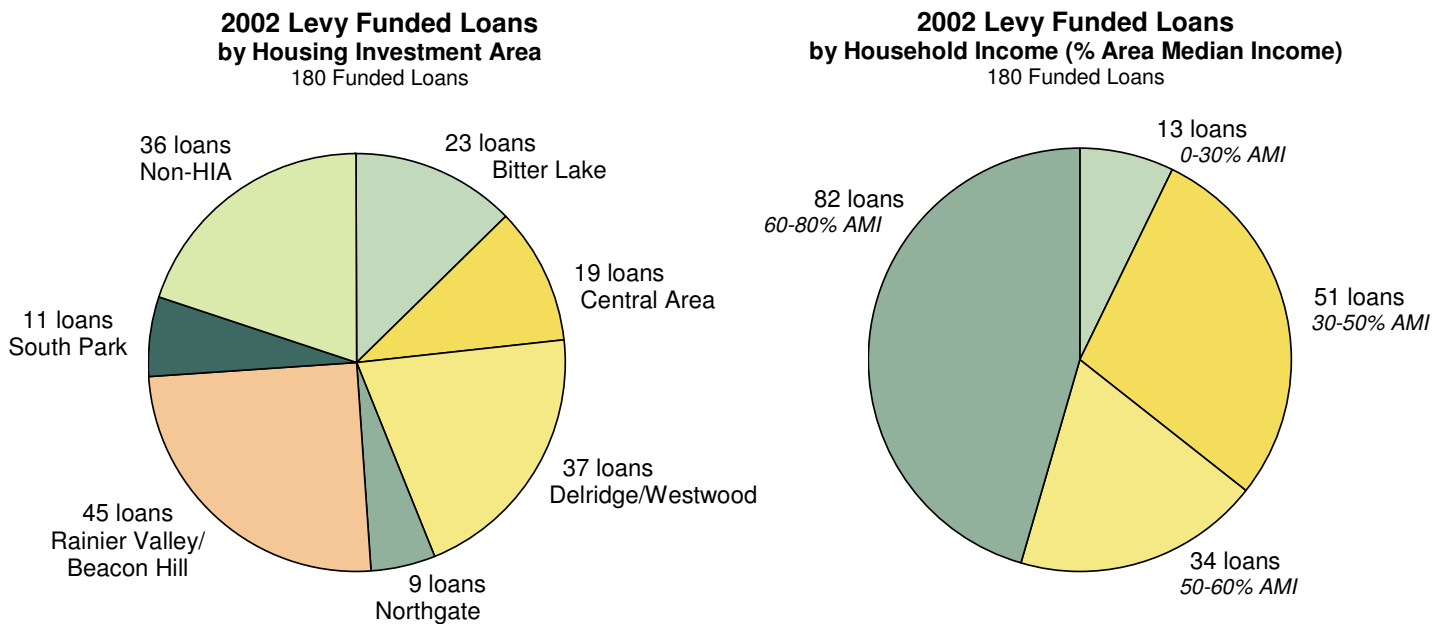
Terms of 2002 First Time Homebuyer Loan Fund: Households whose incomes do not exceed 80% of median income are eligible for up to a \$45,000 loan from the City. The loan, which has 3% interest, is repaid when the home is sold. The money is a revolving loan fund that is then made available to other potential buyers. The 2002 Levy requires that $\frac{3}{4}$ of program funding be used for home purchases within specified Housing Investment Areas (see pie chart on next page). Home buyers must use conventional, fixed-rate first mortgages to be eligible for Levy-funded downpayment loans.

The City's first-time homebuyer loans are administered by nonprofits and banks, which have a variety of programs to serve families with different needs. For example, HomeSight provides homebuyer services in multiple languages, Parkview Services provides homeownership opportunities for people who have a disability, Homestead Community Land Trust provides for long-term affordability by placing the homes in a land trust, and Habitat for Humanity provides homeownership opportunities for people who commit 500 hours of service to Habitat's homebuilding efforts.

Not only do Levy funds create first-time homebuyer opportunities, they also create knowledgeable and responsible homeowners. OH works with a set of skilled nonprofits and banks to ensure that homebuyers are well prepared for

homeownership. All homebuyers who receive a loan from the City are required to take a first time homebuyer class, where they learn about both the home buying process and the requirements of owning a home. The benefits of this up front investment in the homebuyers is clear; in spite of the rise both nationally and locally in foreclosures, not a single 2002 Levy loan has gone into foreclosure.

2002 Levy funding as of June 2008 will serve 200 first-time buyers. The following information is for 180 loans that have closed so far:



2. BENEFITS OF HOMEOWNERSHIP

- Affordable Loans Protect Against Foreclosure.** Given the rise in foreclosures nationally, one of the first questions people ask about the City's First Time Homebuyer Loan program is whether the low-moderate income households in the City's homeownership program are in trouble. Quite the opposite is true. Out of the City's 427 loan portfolio, there have only ever been three foreclosures. The reasons for the stability of the households and the portfolio are: 1) households must take homebuyer education courses, which have a significant financial counseling component; 2) to use the City's down payment assistance, the homebuyer may only use a 30 year fixed rate mortgage product; 3) households may not pay more than 35% of their income on housing costs; 4) our nonprofit partners also offer post purchasing counseling. By offering these services, the City's first time homeowner program has enabled families to obtain mortgages

that they can actually afford and loan products that will provide them with a stable mortgage payment.

- **Help Families Build Assets and Stability:** Low-income working families that own their homes are able to build wealth and save for retirement because a portion of their monthly housing payment goes toward paying down the principal of their mortgage, not to a landlord. The opportunity to own a home - at an affordable and constant monthly mortgage payment - gives low-income households financial stability by protecting families from unexpected increases in rents. Research from the Urban Institute's Opportunity and Ownership Project shows that low-income families that own a home can better weather a financial emergency by providing them the ability to borrow a home equity line of credit. Low-income homeowners are also able to take advantage of mortgage interest and property tax deductions, another notable benefit of homeownership. In short, owning a home is one strategy that helps low-income families break the cycle of poverty.
- **Support the Affordable Housing Continuum:** The housing continuum offers a variety of housing types for households in varying economic situations. Housing in the continuum moves from housing for formerly homeless through rentals to homeownership. A key to making the housing continuum function is upward mobility; allowing households to move from one step in the continuum to the next. If current renters are unable to move to homeownership because of home price, they continue to occupy a rental unit that is needed for households moving up the housing continuum.
- **Promote Neighborhood Stability:** According to "The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research", homeownership contributes to neighborhood stability in a number of ways, including:
 - *Increased neighborhood tenure and stability as compared to renters*
 - *Increased property value for each homeowner added*
 - *Increased involvement in political and community activities*
 - *Improved student performance for children of homeowners as compared to renters*

In addition to quantifiable community benefits during positive economic times, the City's loan program provides community benefits during negative financial times. As mentioned above, there have only been three loan foreclosures ever in the City's portfolio of 427 loans. In other areas of the country where there have been significant loan foreclosures, communities have been destabilized. Loan foreclosures have a clear negative impact on homeowners, businesses and communities. Governments lose tax revenue while foreclosed properties have a downward impact on neighboring

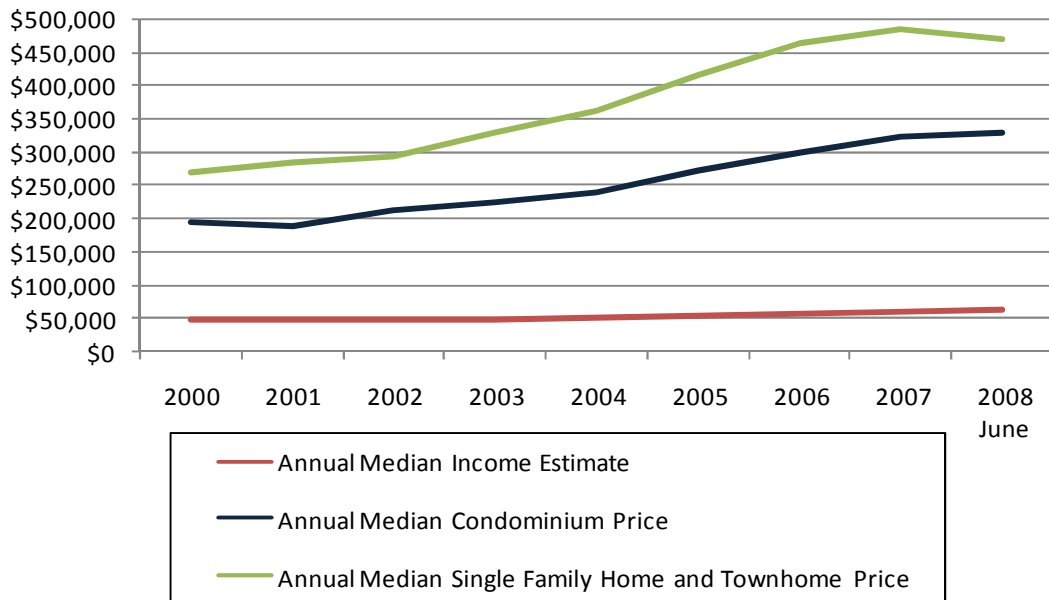
properties. A Minnesota study found that a home foreclosure costs stakeholders including the homeowner, lender, federal government, municipal government and neighborhoods between \$26,600 and \$73,000.

- **Leverage Public Resources:** Helping low-and moderate-income families buy homes has proven to be an effective and efficient use of public dollars. Every Levy dollar invested in homebuyer assistance is matched six times by private-sector mortgage financing, homebuyer savings, and other federal and state resources. In addition, Levy dollars are repaid over time so each dollar has the potential to assist multiple homebuyers.

3. CONTINUED NEED: THE SEATTLE HOMEOWNERSHIP MARKET

Home Prices as compared to household income. Despite the small drop in home prices from their all-time high in 2007, homes in Seattle continue to be beyond the reach of low- and moderate-income homebuyers. A look at the trend of home prices and household incomes reveals that the rise in home prices far outpaces the rise in income. From 2000 to 2008, the median price of a single-family home increased 73% while the annual median income for a Seattle worker increased only 31% in the same period.

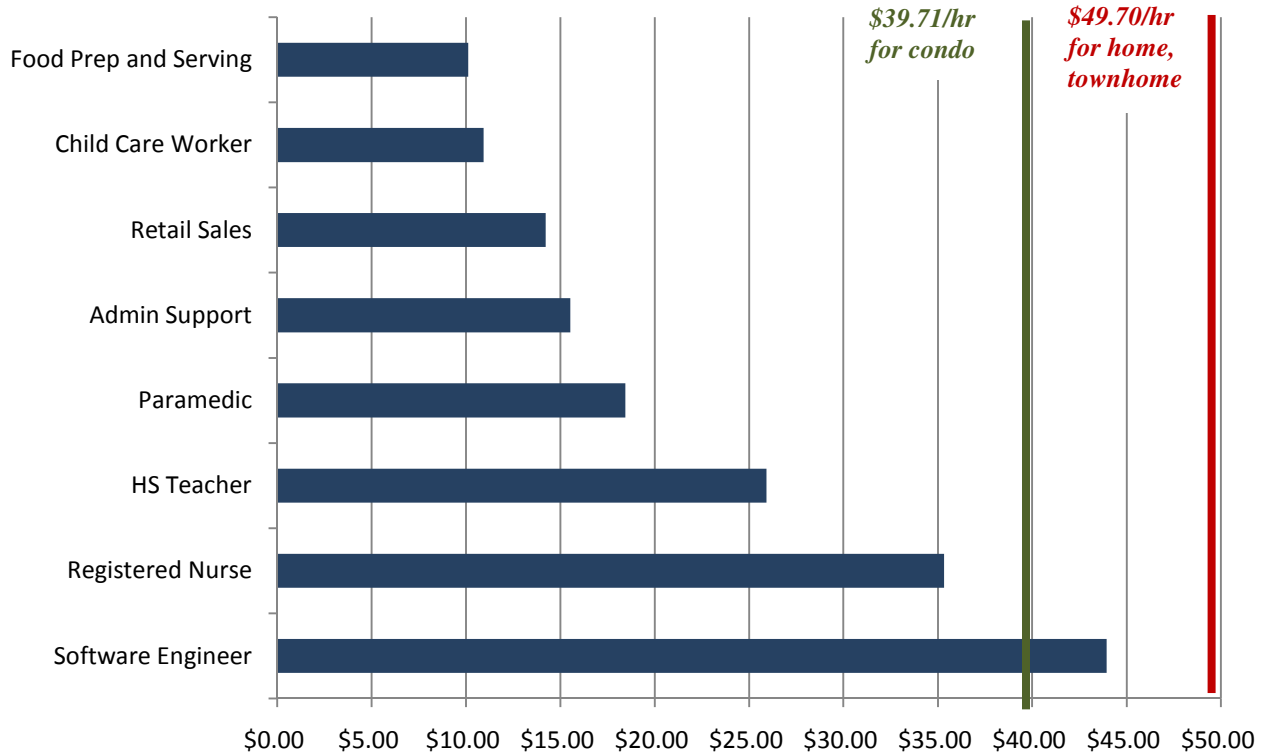
Home Sale Prices and Household Incomes in Seattle



Affordable homes and Seattle’s work force. The issue of homeownership affordability comes into focus when the affordability gap is understood in the context of Seattle jobs and the “housing wage” - what a worker must earn per hour in order to afford a home purchase. In order to include critical first

responders, educators, service sector employees and a variety of occupations as part of the Seattle community, there is a continued need for the Housing Levy to make homeownership a reality for Seattle’s workers.

Average Wages and Affordability



4. 2009 HOMEOWNERSHIP PROGRAM

Vision: The 2009 Homeownership Program will continue to actively promote the housing continuum by enabling low and low-moderate income homebuyers to purchase homes in Seattle, providing asset growth for homebuyers, leveraging capital for neighborhood investment and supporting community stability.

The primary tool for the program will continue to be downpayment assistance. The 2002 Levy homebuyer program achieved many of these same objectives, assisting 200 first time homebuyers to date and leveraging over \$40 million in first mortgages and additional subsidy. The 09 program will follow the success of the 02 Levy by using a similar approach of downpayment assistance, enhanced by stressing specific policy objectives and overall program flexibility.

Policy Goals: Beyond simply supporting low and low-moderate income home buying, the Homeownership program will actively promote several policy goals, including:

Supporting income diversity and neighborhood stability near light rail stations and other transit nodes. The Seattle region is making a considerable investment in public transit, including light rail, bus rapid transit, and expanded bus service. Promoting affordable homeownership near these locations will lead to neighborhood diversity in areas often dramatically impacted by gentrification while simultaneously encouraging use of public transportation.

Promoting long-term affordability for units acquired through the homeownership program. Long-term affordability is a sustainable way of creating homeownership opportunities over the long-term. Homebuyers enjoy the benefits of homeownership, including stability and potential asset appreciation, while long-term affordability ensures that there will be homeownership opportunities in the future.

Program Proposal: To achieve these goals, OH proposes to continue to provide down payment assistance, but to provide an additional incentive for households to purchase within Transit Oriented Development Areas and/or to use a long-term affordability model, such as a land trust. First-time homebuyers would be eligible for a loan of up to:

- **\$55,000** for general down payment assistance any place in the city; or
- **\$65,000** if the homebuyer purchased in a Transit Oriented Development area and/or used a long-term affordability model such as a land trust model. The Office of Housing recommends replacing the current requirement that funding be prioritized for Housing Investment area, with the incentive for homes to be purchased in a Transit Oriented Development area.

Flexibility: The 09 Housing Levy will operate over seven years, during which there could be considerable changes in the Seattle real estate market. Additional high capacity transit station areas may be established where TOD development is planned. Maintaining program flexibility will allow the homeownership program to evolve to meet the changing needs of low-income homebuyers. As with the current Housing Levy, policy changes required to respond to the dynamic market, and emerging land use and transportation planning, would be made by the Housing Levy Oversight Committee and approved by the City Council through the Levy Administration and Finance Plan.